

ILLINOIS GAMING BOARD MEETING MINUTES
April 25, 1990

Media Room, Level 1SE
Willard Ice Building
101 West Jefferson Street
Springfield, Illinois

Present: William Kunkle, Chairman; Board Members: J. Thomas Johnson,
Raymond Niepert, Robert Gibson

Absent: Jack Chamblin, Board Member

Also Present: Bob Steere, Temporary Counsel and Secretary of the Board;
Walter N. "Bud" Read, past-chairman, New Jersey Casino Control Commission;
Jeffrey Lindo, President, and Mitch Menik, Vice President, Kennilworth Systems
Corporation; Ellen Lewis, Illinois Department of Revenue; media and the general
public

The meeting was called to order at 10:00 a.m. by Chairman Kunkle, with four of
the five Board members present.

The first order of business was approval of the minutes of the Board's previous
meeting. Due to the length of the Minutes, Chairman Kunkle tabled their
approval until the next Board meeting in order to allow ample time for their
review by the Board.

Next, Chairman Kunkle introduced Walter N. "Bud" Read, former Chairman of the
New Jersey Casino Control Commission. Chairman Kunkle noted Mr. Read's
experience in gaming regulation, and welcomed any comments or thoughts which he
could offer to the Board.

Mr. Read offered a summary of the New Jersey Experience:

* Casino gaming was approved by referendum in November, 1976. The
location of casino gaming was limited to Atlantic City. The revenue from the
gaming tax was earmarked for the elderly and the handicapped. The supporting
statute was adopted on June 2, 1977. The first casino license, a temporary
license, was issued to Resorts approximately one year later.

* Temporary licensing was done because permanent licensing turned out
to be a lengthy process, and Resorts had purchased and converted an existing
hotel and was ready to start operations. Looking back, temporary licensing was
a mistake. It was done too quickly, with not enough time allowed for conducting
background investigations. Had Resorts undergone a permanent licensing process,
it might not have been licensed due to background problems. It is difficult to
close a casino once it has started operations, for it is a blow not only for the
casino operator but also for its employees and suppliers. The New Jersey
statute has since been amended to eliminate temporary licensing.

* New Jersey is considered by some to be over-regulated, while Nevada
is considered by some to be under-regulated. For example, Nevada does not have

inspectors in every casino, while New Jersey has inspectors in every casino 24 hours a day.

* Th Board should review and re-examine the Riverboat Gambling Act and adopt regulations which will accomplish what needs to be accomplished. At the outset the regulations should be as tough as the Board can reasonably make them, for they can always be relaxed later.

* New Jersey has four levels of occupational licensing; 1) simple registration of unskilled and semi-skilled non-casino personnel such as food servers and house keepers; 2) a Non-Gaming License for personnel who have access to the casinos but who do not participate in gaming; 3) a Gaming License for personnel such as dealers and slot mechanics who participate in gaming; and 4) a Key License for personnel such as the casino operator's executives, gaming supervisors and hotel managers.

Mr. Read offered additional comments about gaming in general and gaming as applied to riverboat gambling:

* The \$200 dollar gambling loss cap in Iowa was probably adopted in an attempt to deal with the problem of the compulsive gambler. This is not a practical solution to the problem, since a compulsive gambler will find a way to gamble in spite of a loss cap. A feature of the Illinois statute which will be far more effective is the limitation of gambling to 4 hour cruises, which will force the compulsive gambler to stop gambling and get off the boat. New Jersey does not allow 24 hour gambling, requiring the casinos to close at 4:00 a.m. on weekdays and 6:00 a.m. on weekends, which then reopen at 10:00 a.m. This forced break of several hours gives the compulsive or heavy social gambler a chance to think and decide whether continued gambling is wise.

* Other prevalent problems are underage gambling and underage drinking. The casinos in New Jersey have done a good job, but there are a tremendous number of underage people who want to drink and to get on the gaming floor. An underage gambler is an incipient compulsive gambler; the worst thing that could happen would be for an underage gambler to have a big win early in his career.

* New Jersey supervises the casino's count of money, which has been very helpful. A Commission agent accompanies the cart when money is taken from drop boxes and slot machines. The count room is supervised; the casino personnel in the count room wear uniforms which have no cuffs, no pockets, no belts - no place to hide money. It is fair to say that in New Jersey there is no skimming, which is impressive for an industry which in 1988 brought in a gross revenue of 20.5 billion dollars.

* New Jersey supervises the play on the casino floors via "eye-in-the-sky" television cameras. It is also important to have investigators on the floor at all times to observe play first hand and to answer questions and complaints from customers. The Board should have at least one agent on each riverboat for every cruise.

* The integrity of gaming can best be ensured by such things as making sure that an operator's financing comes from reputable sources such as banks or insurance companies, and a redundant supervision system of people watching people watching people.

Mr. Read next answered questions posed by the Board.

* In New Jersey no amount of gaming money goes directly to help cure compulsive gamblers. A few years back a pilot project was begun, but its funding has been cut back. The best use of gaming money for this purpose would probably be to help fund existing hospital programs.

* The medical profession did not recognize compulsive gambling as a diagnosable illness until 12 to 15 years ago. Compulsive gamblers who are cut off go through withdrawal, experiencing hallucinations and the "sweats", just as drug addicts go through withdrawal. Proper treatment is a much better way to combat this illness than such things as caps on gambling losses.

* In New Jersey surveillance personnel are stationed on ceiling walkways and observe gaming through one way glass in addition to eye-in-the-sky cameras, but most of the work is done by camera. The fact that ceiling type walkways are not a practical option for riverboat gambling is not that critical, for surveillance cameras can observe activity close in with incredible clarity.

* As to whether the percentage of slot payout should be regulated, as in New Jersey, or left to a free-market approach, as in Nevada, it should be remembered that New Jersey's goal was to have a more gentle, "British" approach to gaming, rather than a Las Vegas glitz approach. However, as gaming developed in Atlantic City, it became clear to New Jersey that American gamblers wanted the glitzier approach. Nevertheless, New Jersey has retained its regulatory scheme. This is also reflected in New Jersey's strict separation of casino and non-casino activities, while Nevada allows gambling to operate in all areas of the community.

* While New Jersey still regulates slot percentage payout, it no longer regulates maximum debts on tables or requires two dollar tables. The free-market approach worked best in these areas, and in fact free-market realities often result in slot payouts higher than the 83% required by regulation. The best approach for the Board to take would be to regulate all these areas tightly at the start, and then loosen up if the situation so warrants. It is always easier to relax than it is to toughen existing regulations.

* The definition of "cheating" contained in the Riverboat Gambling Act is awfully tight and probably unworkable. As it now reads, an operator who changes the payout of a slot machine, even to increase the payout, has committed "cheating".

* New Jersey licenses as key employees top executives such as the hotel manager and liquor purchaser who are not directly involved with the casino. You have to look at everyone involved in the top positions, and take care to determine where the money goes. A person who is getting a top salary, even if that person is not involved with the casino, must be investigated.

* In New Jersey the local police provide law enforcement services in general areas, while the State Police provide those services on the casino floors. In addition, the Casino Control Commission has people on the floors and in the booths at all times, and each casino has its own house security staff.

* It is likely that there will be an increase in crime in the areas where the riverboats dock, because that always happens at locations where money appears.

* In New Jersey there is tight security in the count rooms and cages, and each casino has an armored car bay where armored cars can drive right up to the casino.

* It is quite possible to merge the functions of an inspector and a general law enforcement officer into one person on a riverboat. In fact, in New Jersey some people feel strongly that the inspectors should not be with the Casino Control Commission, but rather with the Division of Gaming Enforcement of the Attorney General's Office and the State Police.

* The Board should carefully consider the security problems which arise when a riverboat is under way. If there is a lot of cash on board it would be an inviting target for thieves who could board and rob the riverboat like river pirates.

* There is a great deal to be said for a system which requires the cash banking facility to be on shore. The facility could be secured and run like a bank, and there would be less cash on board.

* Electronic slot machines are problematic. American gamblers like to pull the handle and hear the machine work, and hear the coins fall. Some electronic slot machines have these features built in.

* If people are required to buy all of the chips or tokens which they think they might need at the start of the cruise, there probably will not be as much gambling across the board.

* There is no question that in a situation where a temporary license is issued to an operator and then a permanent license is denied, the cost to an operator a riverboat would probably have an easier time finding a buyer than an operator of a casino-hotel.

* Some financial analysts say that Iowa cannot possibly succeed with a 20% gambling tax and a \$200 cap on gambling losses. Any attempt to combine Illinois' 20% gambling tax with a cap on losses would be disastrous. New Jersey has an 8% gambling tax combined with a 1.25% tax which ultimately can be recouped by an operator in some situations. Most economists would probably say that a 15% gambling tax is doable; a 20% tax is pretty tight.

* As gaming grows political power related to gaming can also grow. This can be a cause of concern. In Nevada, 38 members of a 42 seat house in the general assembly had direct connections with the gaming industry. This could never happen in New Jersey, because revenue from the gambling tax contributes only 1% of the state budget. When you add the lottery and race tracks, this contribution goes up to 7%. Key employees in the gaming industry cannot hold top administration positions in Atlantic City or certain state wide offices. Otherwise, they can participate in all levels of government. Casinos cannot make direct political contributions, but legislative efforts to limit the political contributions of a casino's key employees, attorneys and accountants have not been successful.

* In New Jersey, the revenue derived from the 8% gambling tax goes directly to the handicapped and elderly. Revenue derived from the fines, penalties and license and applications fees charged to the industry go into a separate fund, from which the costs of the Commission's budget are paid. If this fund does not contain enough money to cover these costs, the 12 operating casinos are billed on equal basis to cover the shortfall. If there is an excess

of money in the fund, it is returned to the 12 casinos on an equal basis. In this way, the industry pays for enforcement and regulation. On inequity with this system: if a casino has a substantial penalty assessed against it and there is an excess amount of money in the fund at the end of the year, that casino gets 1/12th of its penalty returned to it.

* It might be practical to set up a mechanism under which the operators directly pay these costs, instead of the New Jersey system which basically has the Commission billing the industry. It should be noted, however, that even with New Jersey's 8% tax plus the 1.25% tax plus the penalties and fees charged to the industry, the total percentage taken from the adjusted gross probably does not get up to 12%. Illinois' 20% tax rate should be taken into consideration when determining the costs to be born by the operators.

* The operator's staff performs the actual count in the casino's count room. The Commission's inspectors are present merely to ensure the integrity of the count.

* A quick review of the draft application form submitted to the Board today shows that it is much shorter than New Jersey's number one application form, but it appeared to cover the issues pertinent to the Board's concerns. License applicants must be investigated thoroughly, and the licensing process is necessarily very intrusive.

* The Attorney General of New Jersey is opposed to debt financing of any degree for casino operators. However, you should look at the overall picture. Debt financing has utility; some entities could not have been built if it had not been available. However, there are some entities that have far too much debt. An operator can cut his dividends for a couple of years, but if his bond holders are not paid on time the bankruptcy court will hear about it pretty quickly. Consequently, an applicant must establish not only his good character, honesty and integrity, but also his financial stability for the entire period of licenser.

The next order of business was a presentation concerning cashless wagering by Mr. Jeffrey Lindo, President, and Mr. Mitch Menik, Vice President, of Kennelworth Systems Corporation.

Mr. Lindo presented to the Board and discussed his written testimony concerning cashless wagering. Mr. Lindo also presented a video tape which demonstrates the operation of cashless wagering.

Upon questioning by the Board, Mr. Lindo offered the following comments:

* Each electronic card has an individual Personal Identification Number which is chosen by the customer. It is not used while playing the machines, but rather at the cashier's cage when the card is cashed in.

* When playing a table game, the card holder would tell the dealer how many chips he wants; when play is finished the chips are returned to the dealer for counting, who then credits or debits the card. A player could move from table to table with his chips.

* Mr. Read's point about American gamblers wanting to hear the slot machine run and the coins jingle is well taken. But they also like the convenience which the card offers. Both needs can be met when the slot machines are equipped to make the sounds electronically.

* The percentage of payout of an electronic slot machine is a percentage covering the entire machine. The value of the wager made does not alter the percentage. Therefore, it does not make any difference whether a customer plays a \$.25 game or a \$2.00 game, the percentage of payout will remain the same. The machine pays out a percentage of all units which are put into it, regardless of whether the units were put in it in the form of quarters or dollars.

* The electronic card is a non-magnetic card. Therefore, it cannot be erased. It only allows access to information which is maintained like a banking system - in a central computer.

* The machines do allow both coin and cashless pay, but it makes little sense to unnecessarily take on the expense and problems of coin handling.

The meeting adjourned for lunch at 12:15 p.m., and reconvened at 1:00 p.m.

The next order of business was a report by Mr. Steere concerning the status of draft rules and application forms. Mr. Steere presented a copy of a draft owner's application form to the Board, and explained that it was a draft of the background information portion of the form. Mr. Steere stated that the remaining portions which need to be drafted include definitions, riverboat information, gambling operation information, and financial and economic information.

The draft application form was distributed to the general public. Chairman Kunkle requested that any comments concerning the draft form be directed in writing to Mr. Steere.

Mr. Johnson moved that the Board retire to a closed session to discuss personnel matters relating to the appointment of an Administrator. The motion was seconded by Mr. Gibson and was approved unanimously.

Whereupon, the Board retired to a closed session at 1:10 p.m., and returned from closed session at 1:15 p.m. Chairman Kunkle reported that the Board had discussed personnel matters.

The next meeting of the Board was scheduled for Friday, May 11, 1990, at 9:30 a.m. at a location in Springfield to be announced.

Mr. Niepert moved to adjourn the meeting. The motion was seconded by Mr. Gibson, and was approved unanimously. The meeting was adjourned at 1:20 p.m.

Robert D. Steere
Temporary Secretary and Counsel
Illinois Gaming Board